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C O N F I D E N T I A L SECTION 01 OF 03 YEREVAN 000837

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TAGS: [PREL](#) [PGOV](#) [EAID](#) [ENRG](#) [AMGT](#) [TU](#) [AJ](#) [IR](#) [AM](#)
SUBJECT: AMBASSADOR'S INTRODUCTORY CALL ON ENERGY MINISTER

Classified By: Ambassador Marie L. Yovanovitch. Reason 1.4 (b/d)

SUMMARY

¶1. (C) During their introductory meeting October 9, Minister of Energy and Natural Resources Armen Movsisian emphasized to the Ambassador the GOAM's need to pursue energy security. The recent crisis in Georgia was a reminder of Armenia's vulnerability to the region's political instability, and the Minister admitted there is no "Plan B" should fuel supplies be disrupted this winter. Movsisian outlined the GOAM's ambitious plans for replacement of its aging nuclear power plant and diversification of its natural gas supplies with a new gas pipeline from Iran. Movsisian asserted that everything is proceeding well with its recent agreement to sell electricity to Turkey, and hopes that Armenia will be exporting power by springtime. End Summary.

GEOPOLITICAL POSITION MAKES ENERGY SECURITY HIGH PRIORITY

¶2. (C) Meeting with Minister of Energy and Natural Resources Armen Movsisian on October 9, Ambassador was told that Armenia's geopolitical position necessitates making energy security a top priority for the GOAM. The recent Georgia crisis reminded everyone of Armenia's vulnerability to political instability in the region, given that Armenia imports all of its natural gas from Russia (and soon Iran), and gasoline and diesel is imported and delivered through Georgia. (Note: During the Georgia crisis, gasoline and diesel shipments to Armenia were disrupted several times, leading to periodic shortages. In addition, there is always the risk that Russia could reduce or cut off gas supplies through Georgia or that in a crisis Georgia would siphon off significant quantities of gas bound for Armenia. End Note).

THERE IS NO "PLAN B"

¶3. (C) While Movsisian expressed confidence that the political situation in Georgia will be stable over the coming winter (when energy demand peaks), he acknowledged that the GOAM currently has no "Plan B" in the case of major supply disruptions of gas from Russia via the pipeline through Georgia. He noted that he is in touch with his Russian counterpart, who has assured him that Armenia will not be left in the cold this winter, but the Minister admitted he remains concerned.

¶4. (C) During winter, Armenia's underground gas storage facility can hold 10-12 days' supply, and transporting gasoline and diesel from Iran is not feasible due to the impassibility of mountain roads, he said. One potential option would be to bring in fuel from Turkey if the border were reopened, but Movsisian suggests that will not occur overnight and cannot yet be relied upon. There are no gas pipelines between Armenia and Turkey, though fuel could be shipped by rail. (Note: The number of days Armenia's underground gas storage capacity can last depends on variables such as whether it is at capacity and the weather, though wintertime capacity, without conservation is estimated

at 10-12 days. There are also conservation and rationing measures the government could impose to stretch the reserve, albeit at some economic cost. We are trying to clarify whether the GOAM has a rationing plan in case energy supplies are disrupted. End note)

TURKEY ELECTRICITY DEAL STILL ON

15. (C) Contrary to recent reports that a September electricity sales agreement between the GOAM and a Turkish electric company had subsequently run into difficulty with Turkish authorities, Movsisian insisted that the agreement is moving forward. He reported that the Turkish firm has asked for 4-5 months to repair an electric substation and install about five kilometers of electric wiring, but he hopes to begin shipping power by early March. Movsisian said that the GOAM is unlikely to generate much profit from the agreement, and that the important point was making the political breakthrough.

16. (C) Movsisian appeared ready to accept the Ambassador's offer to assist interaction with Turkey's Energy Ministry should any problems develop with the agreement. Movsisian said he is interested less in a formal visit with his Turkish and Azerbaijani counterparts than in regular business contacts. He said he would gladly travel to both countries; several years ago he initiated contact with both his counterparts but received no response.

MOVING AHEAD ON THE NUCLEAR POWER PLANT

17. (C) Movsisian thanked the Ambassador for the USG's

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support of the USAID-funded preliminary feasibility study (completed in September) for the planned replacement of the aging ANPP. Movsisian indicated the GOAM's eagerness to move ahead and said the next steps will include a human resources requirements study, which is due to be completed by mid-November, and a seismic study. While there is seismic information for the existing plant, and the new facility is planned to be built at the same site, another seismic study is still required. This work is expected to be completed by mid-2009 and together with the USAID-funded preliminary study will constitute a full package of study documents. The project will also require a full environmental impact assessment, including an extensive public input process.

18. (C) Movsisian acknowledged that Armenia lacks the expertise to design and construct the plant, and within the next several weeks will issue an international tender for a consultant and project manager. He expressed a preference for a western firm, which he asserted has higher safety standards. Initial studies indicate that there are 3-4 firms that might be qualified for this project, two of them from the U.S. He hopes to be able to select a project manager by year's-end.

19. (C) The next step will be to select a bank to oversee financial management of the project, which the preliminary study indicated could cost up to USD six billion, almost three times earlier estimates. Movsisian said the project would be financed through an international bond offering, which presumably would be managed by this bank. Movsisian asserted that the GOAM could not be a good manager of the plant and that the GOAM would prefer a private owner, though they would be open to a mixture of public and private ownership. (Comment: Armenia currently holds a "BB" (below investment-grade) rating from Fitch for its sovereign debt. A USD six billion bond offering--many times larger than Armenia has ever issued previously--would likely carry a very high interest rate. Indeed, the preliminary study asserts that export credit agencies of the countries whose firms will supply the plant's equipment are the only feasible source of financing. End Comment).

¶10. (C) Movsisian insisted that all work will be done in accordance to international standards and best practices regarding quality and safety, with the International Atomic Energy Agency (IAEA) approving the scope of work and overseeing the process. Movsisian indicated that the project would use a Russian reactor design with which the Armenians have experience and which has proven reliable over time. Electric and mechanical parts would likely come from European suppliers, and automated and control systems most likely coming from Westinghouse. Nonetheless, while the management company should take into consideration the Ministry's design preferences, they will be expected to come up with recommendations for the best options.

¶11. (C) Construction of this plant will require numerous secondary projects, notably construction or renovation of roads and railroads in order to accommodate the movement of large components which might not fit through existing tunnels or underpasses on the route from the Georgian ports of Poti or Batumi. Movsisian indicated his ministry would oversee that part of the project, rather than the plant's project manager. According to Deputy Minister Areg Galstyan, who met with Emboff the following day, this most likely would be achieved by establishing a new unit or Project Implementation Unit under the Ministry's direction.

IRANIAN GAS PIPELINE BEING TESTED

¶12. (C) Movsisian indicated that the first stage of the Iran-Armenia gas pipeline extending to Kajaran in southern Armenia is currently being tested. He hopes that gas will be flowing through this pipeline soon, which should help meet Armenia's peak energy demand. (Note: The pipeline will ultimately extend to the central Ararat Valley (and then on up to the Hrazdan power plant in Kotayk Marz) and will transport up to two billion cubic meters per year, approximately the same amount currently supplied by Russia's GazProm via pipeline through Georgia. The primary use of this gas will be to generate electricity at the Yerevan Thermal Power Plant, although if necessary it could also be diverted for heating use. In its current state of completion, the pipeline's capacity will be limited to delivering approximately one million cubic meters per day--about ten percent of the amount provided by GazProm, and therefore it is not a substitute for Russian gas at this time. End Note).

COMMENT

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¶13. (C) Movsisian and his ministry have been good partners of the USG and it is clear that he understands Armenia's vulnerable energy position and the need to address it. While Armenia has no long-term alternative to importing both natural gas and gasoline/diesel, the new Iran-Armenia pipeline will ultimately diversify Armenia's gas supplies. Further diversification will likely depend on the country's relations with Turkey and Azerbaijan. The staggering cost estimate for a new nuclear plant might ordinarily make the GOAM think twice about undertaking such a project and instead consider potentially more cost-effective alternatives such as additional thermal power plants. However, such plants would not reduce Armenia's reliance on imported energy. The high cost of a nuclear plant may therefore be the price the GOAM feels it must pay for long-term energy security.

¶14. (C) In light of Movsisian's admission that a disruption of gas imports could adversely affect Armenia, the Embassy has established a small working group to think through steps we would need to be prepared to take if there were to be an interruption of fuel supplies in Armenia this winter. End Comment.
YOYANOVITCH